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Staff Report

Item # 7

To: Lemoore City Council *LA*
From: Lauren Apone, Administrative Analyst
Date: May 3, 2013
Subject: Chevron Energy Solutions Solar Project – Energy Service Contract and Facility Financing Contract

Discussion:

The Chevron Energy Solutions solar proposal before you this evening has been discussed at five previous Council Meetings. The links to those staff reports are below.

- http://www.lemoore.com/agendas/2012/sep18/data/9_18_12_item_5_1.pdf
- http://www.lemoore.com/agendas/2012/oct2/data/10_2_12_item_6_1.pdf
- http://www.lemoore.com/agendas/2013/mar19/data/3_19_13_ss_item_2.pdf
- http://www.lemoore.com/agendas/2013/apr2/data/4_2_13_ss_item_2.pdf
- http://www.lemoore.com/agendas/2013/apr16/data/4_16_13_item_4.pdf

Over those five meetings, Council narrowed down the scope of the project and gave direction as to how they would like to pay for the project. The proposal before you this evening is the final version of both the project itself and its financing approach, taking into account Council's previous feedback. The scope of the project has not changed since the April 16, 2013 Council Meeting. The CEQA and Site Plan Review will go before the Planning Commission on Monday, May 6, 2013 and staff will advise Council on the outcome of that meeting on Tuesday evening.

The proposed Chevron solar project will cost the City \$12,890,000. At Council's direction, staff has put together the following recommendation to finance the project from each of the three accounts that the project will benefit: Water, Sewer, and General Funds.

Table 1

Project Fund	Project Cost	Funding Source 1	Funding Source 2 Borrow From	Funding Source 3
Water	\$9,939,038	Water Operating	WWTP Set Aside Fund	Bonds
		\$350,000	\$2,371,883	\$7,217,155
Sewer	\$2,532,594	Sewer Operating	WWTP Set Aside Fund	
		\$2,209,000	\$323,594	
General	\$635,523	General Fund Operating		
		\$635,523		

All three funds will first use available funds in their own operating budgets to fund their respective portions of the project. For the General Fund portion of the project, this is all that is needed. The Sewer and Water Fund portions of the projects will also borrow from the Wastewater Treatment Plant Set-Aside Fund. This money will need to be repaid to the WWTP Set Aside Fund and is proposed to be repaid according to the following schedule: The Sewer Operating Fund will repay its full obligation of \$323,594 to the WWTP Set Aside Fund in FY 14/15, after its solar savings are realized. The Water Operating Fund will repay the WWTP Set Aside Fund \$2,371,883 in 5.5 annual installments of \$450,000 beginning in FY 14/15 and ending in FY 19/20. Both funds will use their electricity savings to repay all obligations. Table 2 below shows the available balances in each of the above-mentioned funds both before and immediately after paying for this project. The operating funds are required to keep 25% of their annual operating expenses on-hand as cash reserves, which are reflected in the balances below.

Table 2

Fund	Balance Before Project	Balance After Project
Water Operating	\$ 1,024,958	\$ 674,958
Sewer Operating	\$ 2,434,147	\$ 225,147
WWTP Set-Aside	\$ 4,436,775	\$ 1,741,298
General Fund Operating	\$ 9,120,650	\$ 8,485,127

The remaining funding for the Water portion of the project will come from a loan agreement. As Council directed staff last meeting, we have solicited and received two proposals for a \$7 loan. Municipal Finance Corporation's proposal, which Council has seen in the past, had a 2.97% interest rate and no closing costs. Pinnacle Public Finance's (Southwest Securities) proposal, which has been received since the previous Council Meeting, has an interest rate of 2.48% and \$68,000 in closing costs. City staff and our City Attorney have analyzed both proposals, and with the additional \$68,000 in issuance costs added in, the Pinnacle proposal still has an effective interest rate of 2.615%, which is more attractive than the first. The Pinnacle proposal also allows the City to pay off the bonds early beginning in October 2018 with a 1% penalty. Over the course of the fifteen years, the City will save about \$260,000 with the Pinnacle proposal. The \$68,000 cost of issuance and \$149,155 in construction period financing costs are included in the attached cash-flow analysis. Also attached is the site-by site analysis of all of the projects in this proposal.

The City Attorney has reviewed the attached Energy Services Contract with Chevron Energy Solutions and the Loan Agreement with Pinnacle Public Finance, as well as the three consulting agreements for the different parties involved in the loan. Attached also are two resolutions that authorize the Mayor and/or Acting City Manager to sign the contracts.

Budget Impact:

The price tag on the entire solar project with costs of issuance and construction period financing is \$13,107,155. \$9,939,038 will be paid out of the Water Fund, \$635,523 out of the General Fund, and \$2,532,594 out of the Sewer Fund. The savings over 30 years are expected to be \$45.8 million to the above-mentioned funds.

Recommendation:

Staff recommends that Council re-open the public hearings, accept testimony, and approve the following:

- Resolution 2013-10 which approves the Energy Services Contract with Chevron Energy Solutions and authorizes the Mayor and/or Acting City Manager to execute the contract
- Resolution 2013-11 which approves the contracts for Loan Agreement with Pinnacle Public Finance and authorizes the Mayor and/or Acting City Manager to execute the contracts

Attachment 1: Cash Flow Analysis

Attachment 2: Site by Site Analysis

Attachment 3: Resolution 2013-10 – Approving Energy Services Contract

Attachment 4: Energy Services Contract

Attachment 5: Resolution 2013-11 – Approving Loan Agreement Documents

Attachment 6: Water Loan Agreement

Attachment 7: Bond Counsel Agreement

Attachment 8: Financial Consulting Agreement

Attachment 9: Placement Agreement